

**REPORT OF THE AUDIT OF THE
CLARK COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**

**ROSS & COMPANY, PLLC
Certified Public Accountants**

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Henry Branham, Clark County Judge/Executive
Honorable John Myers, Former Clark County Judge/Executive
Members of the Clark County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Clark County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Clark County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Clark County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Clark County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Government Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

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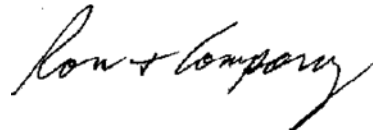
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clark County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated February 15, 2007, on our consideration of Clark County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comment:

- The Fiscal Court Should Reimburse the Jail Canteen Fund \$145,817

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC
Certified Public Accountants

February 15, 2007

CLARK COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

John Myers	County Judge/Executive
Rick Smith	Magistrate
Joe McCord	Magistrate
Pamela Blackburn	Magistrate
Jerry Rogers	Magistrate
Will Richardson	Magistrate
Billy Thomas	Magistrate
John Henry Ramsey	Magistrate

Other Elected Officials:

Gardner Wagers	County Attorney
Bobby Stone	Jailer
Anita S. Jones	County Clerk
Ray Caudill	Sheriff
Karen Bushart	Property Valuation Administrator
David Jacobs	Coroner

Appointed Personnel:

Henry Branham	County Treasurer
Liz Elswick	Deputy Judge/Executive
Kevin Wilson	Road Supervisor
Wanda Baber	Jail Bookkeeper

CLARK COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

CLARK COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,545,826	\$ 77,578	\$ 2,623,404
Total Current Assets	<u>2,545,826</u>	<u>77,578</u>	<u>2,623,404</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	1,214,835		1,214,835
Buildings	6,123,469		6,123,469
Other Equipment	744,760		744,760
Vehicles and Equipment	848,196	32,718	880,914
Infrastructure Assets - Net of Depreciation	<u>523,090</u>		<u>523,090</u>
Total Noncurrent Assets	<u>9,454,350</u>	<u>32,718</u>	<u>9,487,068</u>
Total Assets	<u>12,000,176</u>	<u>110,296</u>	<u>12,110,472</u>
LIABILITIES			
Current Liabilities:			
Revenue Bonds	270,000		270,000
Financing Obligations	<u>135,853</u>		<u>135,853</u>
Total Current Liabilities	<u>405,853</u>		<u>405,853</u>
Noncurrent Liabilities:			
Revenue Bonds	1,730,000		1,730,000
Financing Obligations	<u>1,987,017</u>		<u>1,987,017</u>
Total Noncurrent Liabilities	<u>3,717,017</u>		<u>3,717,017</u>
Total Liabilities	<u>4,122,870</u>		<u>4,122,870</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	5,331,480	32,718	5,364,198
Unrestricted	<u>2,545,826</u>	<u>77,578</u>	<u>2,623,404</u>
Total Net Assets	<u>\$ 7,877,306</u>	<u>\$ 110,296</u>	<u>\$ 7,987,602</u>

The accompanying notes are an integral part of the financial statements.

CLARK COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006

CLARK COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

		Program Revenues Received	
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities:			
General Government	\$ 1,883,445	\$	\$ 668,449
Protection to Persons and Property	3,498,913	98,282	1,385,824
General Health and Sanitation	338,299	252,140	107,718
Social Services	102,809		
Recreation and Culture	149,784		261,965
Roads	467,610		1,475,909
Debt Service	244,450		
Capital Projects	722,253		
Total Governmental Activities	7,407,563	350,422	3,899,865
Business-type Activities:			
Jail Canteen	367,821	263,174	
Total Business-type Activities	367,821	263,174	
Total Primary Government	\$ 7,775,384	\$ 613,596	\$ 3,899,865
General Revenues:			
Taxes:			
Real Property Taxes			
Personal Property Taxes			
Motor Vehicle Taxes			
Other Taxes			
Excess Fees			
Interest			
License and Permits			
Miscellaneous Revenues			
Total General Revenues and Transfers			
Change in Net Assets			
Net Assets - Beginning (Restated)			
Net Assets - Ending			

The accompanying notes are an integral part of the financial statements.

CLARK COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,214,996)	\$	\$ (1,214,996)
(2,014,807)		(2,014,807)
21,559		21,559
(102,809)		(102,809)
112,181		112,181
1,008,299		1,008,299
(244,450)		(244,450)
(722,253)		(722,253)
(3,157,276)		(3,157,276)
	(104,647)	(104,647)
	(104,647)	(104,647)
(3,157,276)	(104,647)	(3,261,923)
1,247,301		1,247,301
150,605		150,605
191,686		191,686
2,338,096		2,338,096
364,346		364,346
100,268		100,268
77,495		77,495
709,248		709,248
5,179,045		5,179,045
2,021,769	(104,647)	1,917,122
5,855,537	214,943	6,070,480
\$ 7,877,306	\$ 110,296	\$ 7,987,602

The accompanying notes are an integral part of the financial statements.

CLARK COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

CLARK COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

	General Fund	Road Fund	Jail Fund	Special Reserve Fund	Public Properties Corporation
ASSETS					
Cash and Cash Equivalents	\$ 1,053,384	\$ 362,713	\$ 54,041	\$ 466,872	\$ 372,163
Total Assets	<u>\$ 1,053,384</u>	<u>\$ 362,713</u>	<u>\$ 54,041</u>	<u>\$ 466,872</u>	<u>\$ 372,163</u>
FUND BALANCES					
Unreserved:					
General Fund	\$ 1,053,384	\$	\$	\$	\$
Special Revenue Funds		362,713	54,041	466,872	
Bond Fund					3,103
Debt Service Fund					369,060
Total Fund Balances	<u>\$ 1,053,384</u>	<u>\$ 362,713</u>	<u>\$ 54,041</u>	<u>\$ 466,872</u>	<u>\$ 372,163</u>

The accompanying notes are an integral part of the financial statements.

CLARK COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2006
(Continued)

Non- Major Funds	Total Governmental Funds
<u>\$ 236,653</u>	<u>\$ 2,545,826</u>
<u>\$ 236,653</u>	<u>\$ 2,545,826</u>
\$ 236,653	\$ 1,053,384
	1,120,279
	3,103
	<u>369,060</u>
<u>\$ 236,653</u>	<u>\$ 2,545,826</u>

Reconciliation to Statement of Changes In Net Assets:

Total Fund Balances	\$ 2,545,826
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	13,474,925
Accumulated Depreciation	(4,020,575)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(2,122,870)
Bonded Debt	<u>(2,000,000)</u>
Net Assets Of Governmental Activities	<u>\$ 7,877,306</u>

The accompanying notes are an integral part of the financial statements.

CLARK COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

CLARK COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	General Fund	Road Fund	Jail Fund	Special Reserve Fund	Public Properties Corporation
REVENUES					
Taxes	\$ 3,927,691	\$	\$	\$	\$
Excess Fees	364,345				
Licenses and Permits	77,495				
Intergovernmental	1,342,701	1,349,637	1,083,183		
Charges for Services	252,140		98,282		
Miscellaneous	165,520	176	18,552	525,000	
Interest	49,123	16,107		13,924	13,639
Total Revenues	<u>6,179,015</u>	<u>1,365,920</u>	<u>1,200,017</u>	<u>538,924</u>	<u>13,639</u>
EXPENDITURES					
General Government	1,463,743				
Protection to Persons and Property	1,910,268		1,218,471		
General Health and Sanitation	338,299				
Social Services	102,809				
Recreation and Culture	187,194				
Roads	16,689	622,144			
Debt Service					
Principal	128,189				255,000
Interest	137,578				108,800
Capital Projects	199,809	450,392		72,052	
Administration	521,962		230,737		
Total Expenditures	<u>5,006,540</u>	<u>1,072,536</u>	<u>1,449,208</u>	<u>72,052</u>	<u>363,800</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,172,475</u>	<u>293,384</u>	<u>(249,191)</u>	<u>466,872</u>	<u>(350,161)</u>
Other Financing Sources (Uses)					
Transfers From Other Funds	122,895		400,000		352,444
Transfers To Other Funds	(603,008)	(40,772)	(149,436)	(82,123)	
Total Other Financing Sources (Uses)	<u>(480,113)</u>	<u>(40,772)</u>	<u>250,564</u>	<u>(82,123)</u>	<u>352,444</u>
Net Change in Fund Balances	692,362	252,612	1,373	384,749	2,283
Fund Balances - Beginning	361,022	110,101	52,668	82,123	369,880
Fund Balances - Ending	<u>\$ 1,053,384</u>	<u>\$ 362,713</u>	<u>\$ 54,041</u>	<u>\$ 466,872</u>	<u>\$ 372,163</u>

The accompanying notes are an integral part of the financial statements.

CLARK COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Non- Major Funds	Total Governmental Funds
\$	\$ 3,927,691
	364,345
	77,495
126,270	3,901,791
	350,422
	709,248
7,475	100,268
<u>133,745</u>	<u>9,431,260</u>
	1,463,743
	3,128,739
	338,299
	102,809
311	187,505
113,482	752,315
	383,189
	246,378
	722,253
	752,699
<u>113,793</u>	<u>8,077,929</u>
<u>19,952</u>	<u>1,353,331</u>
	875,339
	<u>(875,339)</u>
19,952	1,353,331
216,701	1,192,495
<u>\$ 236,653</u>	<u>\$ 2,545,826</u>

The accompanying notes are an integral part of the financial statements.

CLARK COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

CLARK COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 1,353,331
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	745,289
Depreciation Expense	(443,629)
Asset Disposal, Net Value	(16,411)

Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources. These transactions have no effect on net assets.

Financing Obligations Principal Payments	128,189
Bond Payments	<u>255,000</u>

Change in Net Assets of Governmental Activities	<u><u>\$ 2,021,769</u></u>
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CLARK COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

CLARK COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

	Business-Type Activities - Enterprise Funds
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 77,578
Total Current Assets	<u>77,578</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles and Equipment	44,019
Less Accumulated Depreciation	<u>(11,301)</u>
Total Noncurrent Assets	<u>32,718</u>
Total Assets	<u>110,296</u>
Net Assets	
Restricted	32,718
Unrestricted	<u>77,578</u>
Total Net Assets	<u><u>\$ 110,296</u></u>

The accompanying notes are an integral part of the financial statements.

CLARK COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

CLARK COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 263,174
Total Operating Revenues	<u>263,174</u>
Operating Expenses	
Canteen Inventory	128,314
Sales Tax	2,353
Medical Reimbursements	123,168
Medical Supplies	3,948
Miscellaneous	44,255
Personnel Costs	12,090
Depreciation	4,226
Total Operating Expenses	<u>318,354</u>
Non Operating Expenses	
Inmate Refunds	38,928
Inmate Fees & Fines	10,539
Total Non Operating Expenses	<u>49,467</u>
Total Expenses	<u>367,821</u>
Net Change in Fund Balances	(104,647)
Total Net Assets - Beginning	214,943
Total Net Assets - Ending	<u><u>\$ 110,296</u></u>

The accompanying notes are an integral part of the financial statements.

CLARK COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

CLARK COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	Canteen Fund
	<hr/>
Cash Flows From Operating Activities	
Inmate Deposits	\$ 258,976
Interest Earned	4,198
Payments to Suppliers	(128,314)
Sales Tax	(2,353)
Medical Supplies	(3,948)
Medical Reimbursements	(123,168)
Miscellaneous	(55,608)
Personnel Cost	(12,090)
	<hr/>
Net Cash Provided By Operating Activities	(62,307)
	<hr/>
Cash Flows From Noncapital Financing Activities	
Inmate Refunds on Accounts	(38,928)
Inmate Fee and Fines	(10,539)
	<hr/>
Net Cash Provided By Noncapital Financing Activities	(49,467)
	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	(111,774)
Cash and Cash Equivalents - July 1, 2005	189,352
	<hr/>
Cash and Cash Equivalents - June 30, 2006	\$ 77,578
	<hr/>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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CLARK COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transaction, with few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet-Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Clark County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the entity includes a organization that is legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. Based upon the criteria stated in GASB 14 and GASB 39, management has included the Clark County Public Properties Courthouse Corporation as a blended unit. The County has no discretely presented component units.

C. Clark County Constitutional Elected Officials

The Kentucky constitution provides for election of the above officials from the geographic area constituting Clark County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Clark County, Kentucky.

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Jailer
- County Sheriff
- Property Valuation Administrator

CLARK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component unit. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) operating grants and contributions and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internal dedicated resources such as taxes and other unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, and expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund – This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

CLARK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Special Reserve Fund – The purpose of this fund is for the construction and escrow of the soccer facilities that is under construction.

Public Properties Corporation Fund – The purpose of this fund is to account for debt service requirements of general obligation bonds of the fiscal court. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, and State Grants Fund.

Special Revenues Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, State Grants Fund, and Special Reserve Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Public Properties Corporation Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets

The primary government reports the following major proprietary fund:

Jail Canteen Fund – The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

CLARK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United State government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (road and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land is not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings	25,000	10-75
Building Improvements	25,000	10-60
Machinery and Equipment	2,500	3-25
Vehicles	2,500	3-25
Infrastructure	20,000	10-50

G. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

CLARK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the statement of net assets and statement of activities, however encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Jail Canteen Fund.

The State Local Finance Officer does not require the Jail Canteen fund to be budgeted because the fiscal court does not approve the expenses made from these funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Clark County Public Properties Corporation Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The State Local Finance Officer does not require this fund to be budgeted.

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

CLARK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the government's deposits may not be returned to it. The county does not have a deposit policy for custodial risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,173,183	\$ 41,652	\$	\$ 1,214,835
Total Capital Assets Not Being Depreciated	1,173,183	41,652		1,214,835
Capital Assets, Being Depreciated:				
Buildings	8,103,120	29,158		8,132,278
Other Equipment	1,226,725	218,145		1,444,870
Vehicles and Equipment	2,134,835	115,200	(157,847)	2,092,188
Infrastructure	249,620	341,134		590,754
Total Capital Assets Being Depreciated	11,714,300	703,637	(157,847)	12,260,090
Less Accumulated Depreciation For:				
Buildings	(1,869,630)	(139,179)		(2,008,809)
Other Equipment	(574,023)	(126,087)		(700,110)
Vehicles and Equipment	(1,246,449)	(138,979)	141,436	(1,243,992)
Infrastructure	(28,280)	(39,384)		(67,664)
Total Accumulated Depreciation	(3,718,382)	(443,629)	141,436	(4,020,575)
Total Capital Assets, Being Depreciated, Net	7,995,918	260,008	(16,411)	8,239,515
Governmental Activities Capital Assets, Net	\$ 9,169,101	\$ 301,660	\$ (16,411)	\$ 9,454,350

CLARK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Capital Assets (Continued)

Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 32,667	\$ 11,352	\$	\$ 44,019
Total Capital Assets Being Depreciated	32,667	11,352		44,019
Less Accumulated Depreciation For:				
Vehicles and Equipment	(7,075)	(4,226)		(11,301)
Total Accumulated Depreciation	(7,075)	(4,226)		(11,301)
Total Capital Assets, Being Depreciated, Net	25,592	7,126		32,718
Business-Type Activities Capital Assets, Net	\$ 25,592	\$ 7,126	\$ 0	\$ 32,718

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 66,763
Protection to Persons and Property	263,229
Recreation and Culture	3,931
Roads, Including Depreciation of General Infrastructure Assets	109,706
Total Depreciation Expense - Governmental Activities	\$ 443,629
<u>Business-Type Activities</u>	
Jail Canteen	\$ 4,226
Total Depreciation Expense - Business-Type Activities	\$ 4,226

Note 4. Short-Term Debt

Changes in Short-Term Liabilities

In July 2005, Clark County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$800,000, with principal and interest of \$14,082 being due in January 2006.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Kentucky Advance Revenue Program	\$	\$ 800,000	\$ 800,000	\$	\$
<u>Business-type Activities</u>					
Short-term Liabilities	\$ 0	\$ 800,000	\$ 800,000	\$ 0	\$ 0

CLARK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long-Term Debt

A. Refunding Revenue Bonds, (Courthouse and Detention Facilities Projects)

On October 4, 1997, the Public Properties Corporation issued \$3,970,000 of First Mortgage Refunding Revenue Bonds for the purpose of refinancing the Court and Detention Facilities Projects prior bond issues. Principal payments are due each June 1, and interest payments are due each June 1, and December 1, with final maturity in fiscal year 2016. The amount of principal outstanding as of June 30, 2006, was \$2,000,000.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 270,000	\$ 98,325
2008	280,000	86,040
2009	290,000	73,020
2010	230,000	59,245
2011	240,000	48,090
2012-2016	690,000	127,810
Totals	<u>\$ 2,000,000</u>	<u>\$ 492,530</u>

B. Water Lines

1. On June 18, 1993, Clark County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust for the expanded construction of rural water lines. The amount of the lease was \$1,250,000 to be repaid in 300 monthly payments of varying amounts terminating February 1, 2018. The outstanding principal balance as of June 30, 2006, was \$800,000.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 53,000	\$ 36,057
2008	55,000	38,607
2009	57,000	35,003
2010	60,000	36,302
2011	62,000	25,460
2012-2016	351,000	222,984
2017-2018	162,000	8,271
Totals	<u>\$ 800,000</u>	<u>\$ 402,684</u>

2. On October 5, 1995, Clark County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust for the expanded construction of rural water lines. The amount of the lease was \$1,400,000 to be repaid in 300 monthly payments of varying amounts terminating February 1, 2019. The outstanding principal balance as of June 30, 2006, was \$976,000.

CLARK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long-Term Debt (Continued)

B. Water Lines (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 55,000	\$ 49,614
2008	58,000	47,378
2009	61,000	44,471
2010	64,000	41,168
2011	67,000	37,653
2012-2016	387,000	152,802
2017-2019	284,000	24,473
Totals	<u>\$ 976,000</u>	<u>\$ 397,559</u>

3. On May 7, 2001, Clark County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust in order to refinance the lease agreement originally entered into on November 1, 1990, for the expanded construction of rural water lines. The amount of the lease was \$382,000 to be repaid in 180 monthly payments of varying amounts terminating November 1, 2015. The outstanding principal balance as of June 30, 2006, was \$278,000.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 23,000	\$ 14,042
2008	24,000	12,817
2009	25,000	11,540
2010	26,000	10,210
2011	27,000	9,020
2012-2016	153,000	21,165
Totals	<u>\$ 278,000</u>	<u>\$ 78,794</u>

Clark County entered into a sublease agreement with the East Clark Water District to use the water lines. The sublease agreement requires the East Clark Water District to make all lease payments. The East Clark Water District is in substantial compliance with the terms of the sublease agreement.

CLARK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long-Term Debt (Continued)

C. Kentucky State Fire Commission

On January 13, 2005 Clark County entered into a security / lease agreement with the Kentucky State Fire Commission, for the purchase of fire fighting equipment. The amount of the agreement was \$73,059 to be repaid in 13 annual payments of \$6,119 each, terminating November 30, 2017. The outstanding principal balance as of June 30, 2006, was \$68,870.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 4,853	\$ 2,066
2008	4,998	1,920
2009	5,148	1,771
2010	5,303	1,616
2011	5,462	1,457
2012-2016	29,867	4,727
2017-2018	13,239	599
Totals	<u>\$ 68,870</u>	<u>\$ 14,156</u>

D. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 2,255,000	\$	\$ 255,000	\$ 2,000,000	\$ 270,000
Financing Obligations	<u>2,251,059</u>		<u>128,189</u>	<u>2,122,870</u>	<u>135,853</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 4,506,059</u>	<u>\$ 0</u>	<u>\$ 383,189</u>	<u>\$ 4,122,870</u>	<u>\$ 405,853</u>

Note 6. Interest On Long-Term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$135,650 in interest on financing obligations and \$108,800 on general obligation bonds.

CLARK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 7. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for non-hazardous employees was 10.98 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

On May 23, 2001, the Clark County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2006, Clark County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

CLARK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 10. Solid Waste Landfill

On June 4, 1998, Clark County Fiscal Court (hereinafter "County") entered into a lease agreement with Winchester Municipal Utilities (hereinafter "WMU") for the rental of county property upon which the County and WMU formerly operated landfills. The lease states, in part, "it is necessary for WMU to continue occupancy of the farm to meet post closure requirements of state and federal law." Terms of the lease, in part, "shall be twenty (20) years from the date hereof, or a minimum of two years after the landfills have closure certification from the state," and call for a rental payment of "One Dollar (\$1.00) per year." The lease defines liabilities with regard to the maintenance of access roads, use of the property, insurance on the property, and the allocation of post closure care costs provided by WMU. The County made payments to WMU in the amount of \$62,008 during the fiscal year ended June 30, 2006, for its share of post closure care costs.

Note 11. Subsequent Events

A. Fire Truck Purchase

In January 2007, Clark County Fiscal Court entered into a lease/purchase agreement with the Kentucky Association of Counties Leasing Trust for the purchase of a new Kenworth fire truck in the principal amount of \$164,212. Interest payments are due monthly that began in January 2007. Principal payments are due in July of each year. The lease will be paid in full in July 2016.

B. Special Fund: Soccer Field Escrow

Clark County Fiscal Court sold the former soccer field located in Clark County Industrial Park that was used by the Winchester Youth Soccer League. As a result a Special Fund escrow account was created to hold the funds of the sale. The funds are to be used to construct new soccer park facilities on land that was donated by the Winchester-Clark County Industrial Authority. The land is in the name of the City of Winchester from which Clark County Fiscal Court is the lessee.

Note 12. Prior Period Adjustments

Beginning net assets of the governmental activities was decreased by \$176,618 due to a capital asset not being removed from the prior year report. Accumulated depreciation had a decrease of \$41,810 and the net change was a decrease of \$134,808.

CLARK COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

CLARK COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 3,656,440	\$ 3,656,440	\$ 3,927,689	\$ 271,249
Excess Fees	146,404	359,646	364,345	4,699
Licenses and Permits	47,250	47,250	77,495	30,245
Intergovernmental	1,547,677	1,705,294	1,336,584	(368,710)
Charges for Services	279,000	279,000	252,140	(26,860)
Miscellaneous	53,902	158,883	165,520	6,637
Interest	18,000	40,930	49,123	8,193
Total Revenues	<u>5,748,673</u>	<u>6,247,443</u>	<u>6,172,896</u>	<u>(74,547)</u>
EXPENDITURES				
General Government	1,312,364	1,574,963	1,463,743	111,220
Protection to Persons and Property	2,123,652	2,146,035	1,910,268	235,767
General Health and Sanitation	352,786	375,577	338,299	37,278
Social Services	103,650	104,272	102,809	1,463
Recreation and Culture	195,692	200,322	187,194	13,128
Roads	14,000	16,689	16,689	
Debt Service	1,468,324	1,482,406	1,262,656	219,750
Capital Projects	470,327	470,327	199,809	270,518
Administration	425,601	628,443	521,962	106,481
Total Expenditures	<u>6,466,396</u>	<u>6,999,034</u>	<u>6,003,429</u>	<u>995,605</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(717,723)</u>	<u>(751,591)</u>	<u>169,467</u>	<u>921,058</u>
OTHER FINANCING SOURCES (USES)				
Borrowed Money	1,000,000	1,000,000	800,000	(200,000)
Transfers From Other Funds	120,772	120,772	122,895	2,123
Transfers To Other Funds	(403,049)	(403,049)	(400,000)	3,049
Total Other Financing Sources (Uses)	<u>717,723</u>	<u>717,723</u>	<u>522,895</u>	<u>(194,828)</u>
Net Changes in Fund Balance		(33,868)	692,362	726,230
Fund Balance - Beginning		<u>80,000</u>	<u>361,022</u>	<u>281,022</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 46,132</u>	<u>\$ 1,053,384</u>	<u>\$ 1,007,252</u>

CLARK COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,004,583	\$ 1,205,331	\$ 1,349,637	\$ 144,306
Miscellaneous	5,000	5,000	176	(4,824)
Interest	4,000	4,000	16,107	12,107
Total Revenues	<u>1,013,583</u>	<u>1,214,331</u>	<u>1,365,920</u>	<u>151,589</u>
EXPENDITURES				
Roads	685,699	713,444	622,144	91,300
Debt Service	215,000	456,115	450,392	5,723
Administration	72,112	4,000		4,000
Total Expenditures	<u>972,811</u>	<u>1,173,559</u>	<u>1,072,536</u>	<u>101,023</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>40,772</u>	<u>40,772</u>	<u>293,384</u>	<u>252,612</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	<u>(40,772)</u>	<u>(40,772)</u>	<u>(40,772)</u>	
Total Other Financing Sources (Uses)	<u>(40,772)</u>	<u>(40,772)</u>	<u>(40,772)</u>	
Net Changes in Fund Balance			252,612	252,612
Fund Balance - Beginning			<u>110,101</u>	<u>110,101</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 362,713</u>	<u>\$ 362,713</u>

CLARK COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 943,522	\$ 1,086,022	\$ 1,083,183	\$ (2,839)
Charges for Services	70,500	70,500	98,282	27,782
Miscellaneous	13,600	13,600	18,552	4,952
Total Revenues	<u>1,027,622</u>	<u>1,170,122</u>	<u>1,200,017</u>	<u>29,895</u>
EXPENDITURES				
Protection to Persons and Property	1,007,436	1,258,512	1,218,471	40,041
Debt Service	156,589	156,589	149,436	7,153
Administration	266,646	256,871	230,737	26,134
Total Expenditures	<u>1,430,671</u>	<u>1,671,972</u>	<u>1,598,644</u>	<u>73,328</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(403,049)</u>	<u>(501,850)</u>	<u>(398,627)</u>	<u>103,223</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>403,049</u>	<u>403,049</u>	<u>400,000</u>	<u>(3,049)</u>
Total Other Financing Sources (Uses)	<u>403,049</u>	<u>403,049</u>	<u>400,000</u>	<u>(3,049)</u>
Net Changes in Fund Balance		(98,801)	1,373	100,174
Fund Balance - Beginning		<u>52,668</u>	<u>52,668</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (46,133)</u>	<u>\$ 54,041</u>	<u>\$ 100,174</u>

CLARK COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

SPECIAL RESERVE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Miscellaneous	\$	\$ 525,000	\$ 525,000	\$
Interest		2,000	13,924	11,924
Total Revenues		527,000	538,924	11,924
EXPENDITURES				
Capital Projects		527,000	72,052	454,948
Total Expenditures		527,000	72,052	454,948
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)			466,872	466,872
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(80,000)	(80,000)	(82,123)	(2,123)
Total Other Financing Sources (Uses)	(80,000)	(80,000)	(82,123)	(2,123)
Net Changes in Fund Balances	(80,000)	(80,000)	384,749	464,749
Fund Balances - Beginning	80,000	80,000	82,123	2,123
Fund Balances - Ending	\$ 0	\$ 0	\$ 466,872	\$ 466,872

CLARK COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of Budgetary Basis to Modified Cash Basis

Reconciliation of General Fund

Revenues - Budgetary Basis	\$ 6,172,896
Add: Grant Payment State Fire Commission	<u>6,119</u>
Expenditures - Modified Cash Basis	<u>\$ 6,179,015</u>
Expenditures - Budgetary Basis	\$ 6,003,429
Add: Grant Payment State Fire Commission	6,119
Less: Kentucky Advance Revenue Program	(800,000)
Less: Transfers to Public Properties Corporation	<u>(203,008)</u>
Expenditures - Modified Cash Basis	<u>\$ 5,006,540</u>
Other Financing Sources (Uses)	
Budgetary Basis	\$ 522,895
Less: Kentucky Advance Revenue Program	(800,000)
Less: Transfers to Public Properties Corporation	<u>(203,008)</u>
Modified Cash Basis	<u>\$ (480,113)</u>

CLARK COUNTY
NOTES TO SUPPLEMENTARY INFORMATION
June 30, 2006
(Continued)

Note 2. Reconciliation of Budgetary Basis to Modified Cash Basis (Continued)

Reconciliation of Jail Fund

Expenditures - Budgetary Basis	\$ 1,598,644
Less: Transfers to Public Properties Corporation	<u>(149,436)</u>
Expenditures - Modified Cash Basis	<u><u>\$ 1,449,208</u></u>
Other Financing Sources (Uses)	
Budgetary Basis	\$ 400,000
Less: Transfers to Public Properties Corporation	<u>(149,436)</u>
Modified Cash Basis	<u><u>\$ 250,564</u></u>

CLARK COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

CLARK COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

	State Grants Fund	Local Government Economic Assistance Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 859	\$ 235,794	\$ 236,653
Total Assets	<u>\$ 859</u>	<u>\$ 235,794</u>	<u>\$ 236,653</u>
FUND BALANCES			
Unreserved:			
Special Revenue Funds	\$ 859	\$ 235,794	\$ 236,653
Total Fund Balances	<u>\$ 859</u>	<u>\$ 235,794</u>	<u>\$ 236,653</u>

CLARK COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006

CLARK COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

	State Grants Fund	Local Government Economic Assistance Fund	Total Non-Major Governmental Funds
REVENUES			
Intergovernmental	\$ 0	\$ 126,270	\$ 126,270
Interest		7,475	7,475
Total Revenues	<u>0</u>	<u>133,745</u>	<u>133,745</u>
EXPENDITURES			
Roads		113,482	113,482
Recreation and Culture	311		311
Total Expenditures	<u>311</u>	<u>113,482</u>	<u>113,793</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(311)</u>	<u>20,263</u>	<u>19,952</u>
Net Change in Fund Balances	(311)	20,263	19,952
Fund Balances - Beginning	1,170	215,531	216,701
Fund Balances - Ending	<u>\$ 859</u>	<u>\$ 235,794</u>	<u>\$ 236,653</u>

CLARK COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2006

**CLARK COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Clark County, Kentucky.
2. No reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Clark County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Clark County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Clark County reported in Part C of this schedule.
7. The programs tested as major programs were: Help America Vote Act Requirements Payments (CFDA # 90.401) and Chemical Stockpile Emergency Preparedness Program (CFDA # 97.040).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Clark County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS

The Fiscal Court Should Reimburse the Jail Canteen Fund \$145,817

During our testing of Jail Canteen expenditures, it was noted that the Jail Canteen reimbursed the Jail Fund (Fiscal Court) \$110,884 for medical expenses. In addition, the Canteen fund reimbursed the Jail Fund \$34,933 for supplies that were not held for resale to inmates during the fiscal year. These included expenditures for cleaning and other expenditures relating to the normal operations of the jail. KRS 441.135(2) state, "All profits from the canteen shall be used for the benefit or recreation of the prisoners." Disallowed Jail Canteen expenditures totaled \$145,817 and must be reimbursed to the Jail Canteen Fund from the Jail Fund. We recommend that the Fiscal Court reimburse the Canteen Fund for the disallowed expenditures. We also recommend the Fiscal Court ensure profit expenditures from the Jail Canteen be used only for the benefit or recreation of the inmates.

Current County Judge/Executive Henry Branham's Response:

The law is clear in this matter, we realize that before July 1, 2006 we were not allowed to claim money from the jail canteen account to pay medical expenses, but now we can. We will make every effort to repay this money.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

D. PRIOR YEAR FINDINGS

The following prior year findings have not been corrected.

- The Jail Canteen Fund Should Not Pay For Jail Renovations

CLARK COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CLARK COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2006

<u>Program Title</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>	<u>Total By CFDA #</u>
U.S Department of Housing and Urban Development		<i>Cluster</i>		
<i>Passed through KY Governor's Office of Local Development</i>				
Community Development Block Grant	03-053	14.228	\$ 9,000	\$ 9,000
(Odell Gross Adaptive Reuse Project)				
 U. S. Dept of Transportation - Federal Highway Administration				
<i>Passed through KY Transportation Cabinet</i>				
TEA-21 Grant (Lower Howard's Creek Heritage Park)	C-01067871	20.205	138,599	
TEA-21 Grant (Civil War Site)	C-04107112	20.205	41,768	180,367
 U.S. Elections Assistance Commission				
<i>Passed through Ky State Board of Elections:</i>				
Help America Vote Act Requirements Payments	n/a	90.401	132,872	132,872 ***
 U.S. Department of Homeland Security				
<i>Passed Through KY Dept of Homeland Security:</i>				
Homeland Security Grant Program	M-04600529	97.004	39,246	
Homeland Security Grant Program	M-04647883	97.004	2,500	41,746
<i>Passed Through KY Dept of Military Affairs:</i>				
Chemical Stockpile Emergency Preparedness Program	M-05374698	97.040	175,885	175,885 ***
Total U.S. Dept of Homeland Security				217,631
 TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 539,870

*Tested as Major Program or Cluster ****

CLARK COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2006

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Clark County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - The Clark County Fiscal Court provided federal awards to the Clark County Association for Handicapped Citizens as follows:

Community Development Block Grant	CFDA # 14.228	\$9,000
<i>(Odell Gross Adaptive Reuse Project)</i>		

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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The Honorable Henry Branham, Clark County Judge/Executive
The Honorable John Myers, Former Clark County Judge/Executive
Members of the Clark County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Clark County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated February 15, 2007. Clark County presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clark County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Clark County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of material noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs.

- The Fiscal Court Should Reimburse The Jail Canteen Fund \$145,817

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC
Certified Public Accountants

February 15, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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The Honorable Henry Branham, Clark County Judge/Executive
The Honorable John Myers, Former Clark County Judge/Executive
Members of the Clark County Fiscal Court

**Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Clark County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Clark County's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Clark County's management. Our responsibility is to express an opinion on Clark County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Clark County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Clark County's compliance with those requirements.

In our opinion, Clark County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Clark County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Clark County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

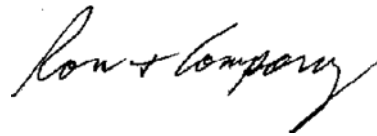
Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", is written over a horizontal line.

Ross & Company, PLLC
Certified Public Accountants

February 15, 2007

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

CLARK COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2006**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
CLARK COUNTY FISCAL COURT

For the Fiscal Year Ended June 30, 2006

The Clark County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

John Myers
County Judge Executive

Henry Branham
County Treasurer

